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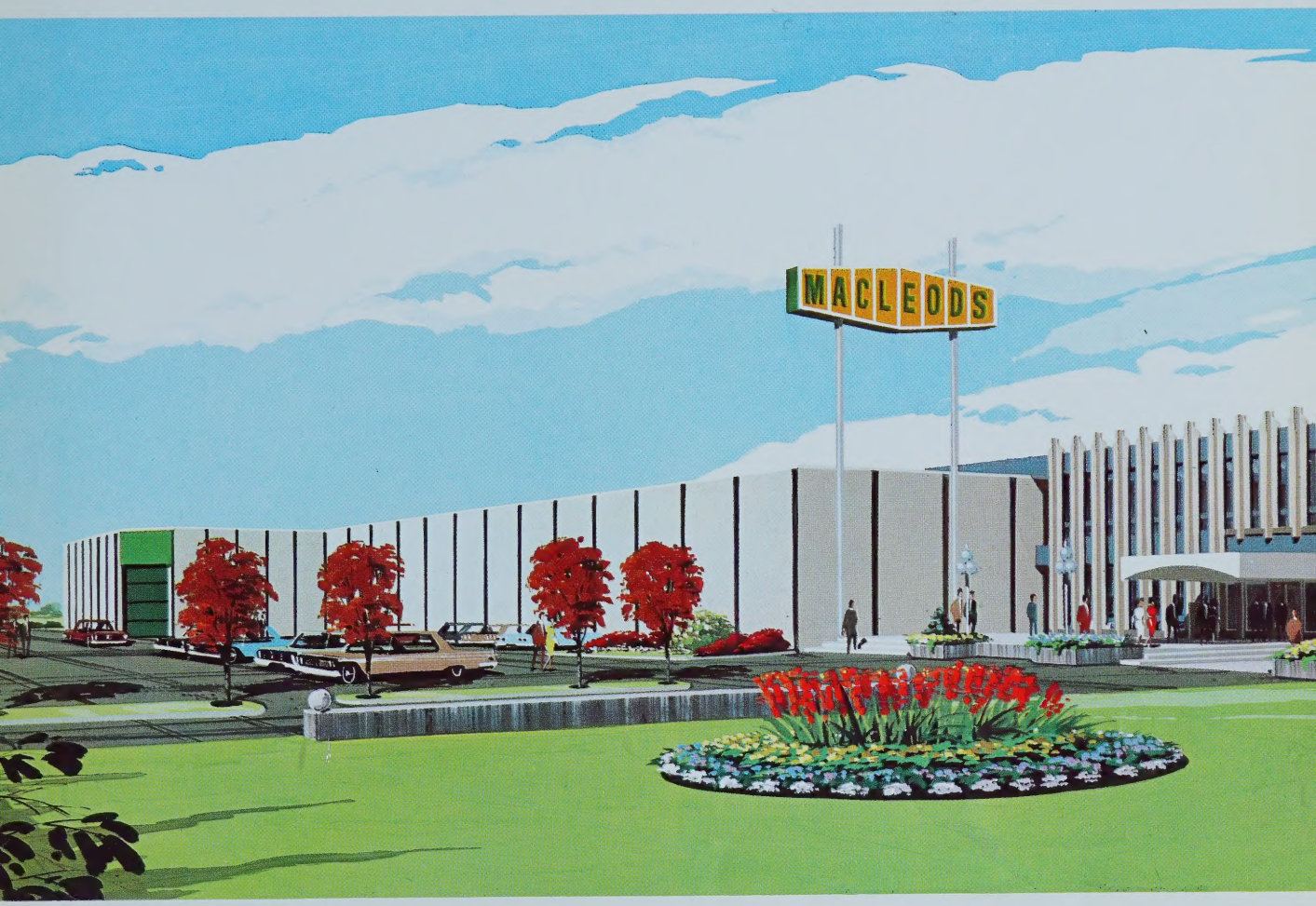
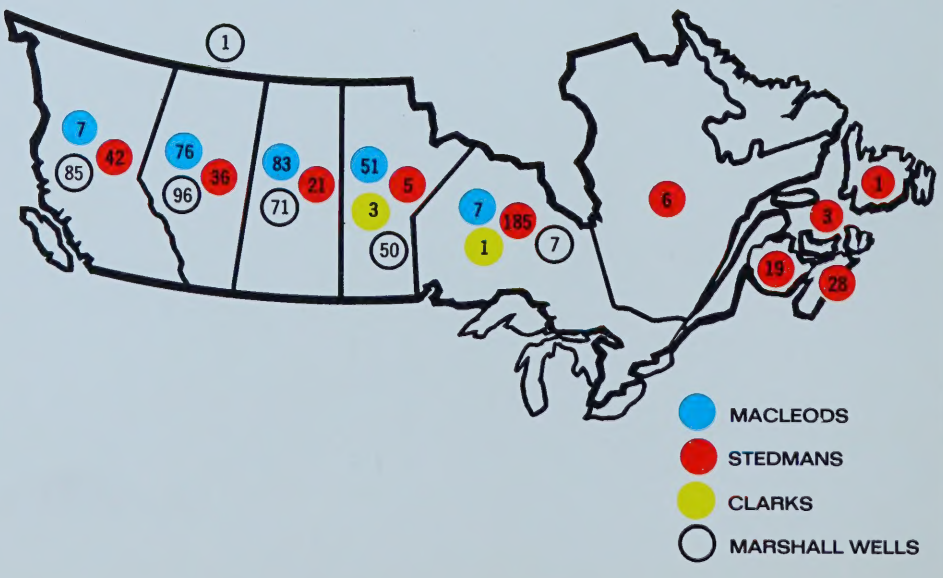


Gamble Macleod Limited

ANNUAL REPORT 1965

for the year ended 31st January 1966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MACLEODS
STEDMANS
CLARKS
MARSHALL WELLS

MAY 30 1967

GAMBLE MACLEOD LIMITED

1530 GAMBLE PLACE, WINNIPEG 19

DIRECTORS

J. B. Cheyne
B. F. Davidson
P. C. Fikkan
B. C. Gamble
A. G. Kirkness
C. C. Raugust
B. F. Rutherford
J. W. Tackaberry
Hon. G. S. Thorvaldson, Q.C.
S. P. Woolever

OFFICERS

A. G. Kirkness, *President*
J. B. Cheyne, *Vice-President for Merchandising*
J. L. MacDonald, *Vice-President and Treasurer*
W. R. Templin, *Vice-President and Secretary*
J. W. Tackaberry, *Vice-President*
C. C. Raugust, *Vice-President*
B. F. Davidson, *Assistant Secretary*
P. C. Fikkan, *President, Marshall Wells*
B. F. Rutherford., *President, Macleods*
S. P. Woolever, *President, Stedmans*

BUYING OFFICES

1530 Gamble Place, Winnipeg 19, Manitoba
1395 Ellice Avenue, Winnipeg 21, Manitoba
136 Portland Street, Toronto 2B, Ontario
1118 Ste. Catherine St. W., Montreal

BANKERS

The Bank of Nova Scotia
Winnipeg, Manitoba - Toronto, Ontario

TRUSTEE

Montreal Trust Company
Winnipeg, Manitoba - Toronto, Ontario

Macleod Stedman Limited
6% Sinking Fund Debentures

To Our Shareholders

It is with pleasure that your Board of Directors submits this report of your company and its subsidiaries and the report of your auditors, together with the consolidated balance sheet and related financial statements for the year ended January 31, 1966.

The year recorded has been one of continuing successful growth and achievement. Sales and earnings were the highest ever recorded; acquisition of Marshall Wells Limited added 310 retail outlets to consolidated merchandising operations; the formation of Gamble Drugs Limited brought a new line of merchandise into the sphere of our activities and good potential for growth; and, throughout the year, all divisions engaged in continuing programs of expansion of merchandise lines and facilities.

The Gamble Macleod plan, to improve the competitive position of each of its merchandising subsidiaries while co-ordinating services to effect savings in expenses, was reinforced and strengthened this past year. Progress continued to be made in the buying program directed by Mr. J. B. Cheyne, Vice-President for merchandising. His committee, comprised of the divisional Vice-Presidents for merchandising and technical buying experts, continued to improve the gross profit picture in each division while maintaining the corporate image of low price and high quality so successfully developed by each retail unit over the past years.

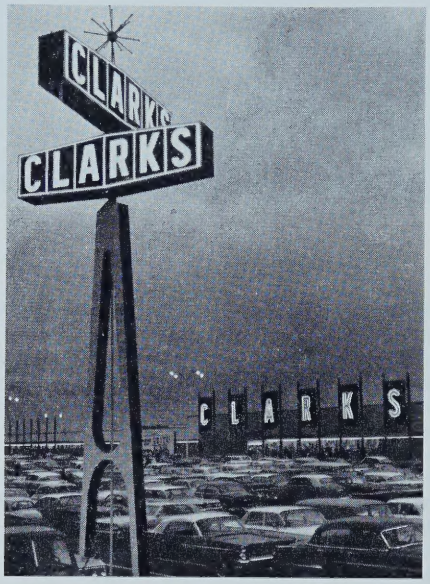
Shared services provided by Gamble Macleod result in savings by eliminating duplications. The centralized credit office, for example, developed revolving credit and customer convenience centre programs for use by all operating divisions. Internal auditing continues to service all companies and electronic data processing is being integrated through a committee, representing all organizations in the group. Currently under investigation are the areas of warehousing and distribution, systems and procedures, employee training and development, and real estate and property development—all fields where substantial cost reductions can be achieved by co-ordinated programs.

SALES, PROFITS, DIVIDENDS AND EMPLOYEES RETIREMENT SECURITY

Consolidated sales for the year amounted to $125,674,019, an increase of 17.2% over the previous year. Net income after taxes increased to $6,771,518 a gain of $2,281,925 over the fiscal year 1965. Dividends of $1,500,000 were paid to the shareholders of the Class A and Class B Common Stock. As in the past, most of the earnings have been retained to provide growth.

As a result of the increased earnings of your company this year, record contributions to the Retirement Security Plan for eligible employees in all divisions of the Company were made. Including the Marshall Wells division these totalled $920,670 for the year. Total value of Trust funds at February 1, 1966 was $10,071,108. These funds are invested in a broadly diversified group of securities of Canadian governments and corporations. These figures represent the totals of the Gamble Macleod and Marshall Wells Trust Funds which have not been consolidated. Total assets of the former amount to $5,470,971 and of the latter to $4,600,137.

All merchandising divisions contributed to the year's results as the following reports on subsidiaries' operations indicate.

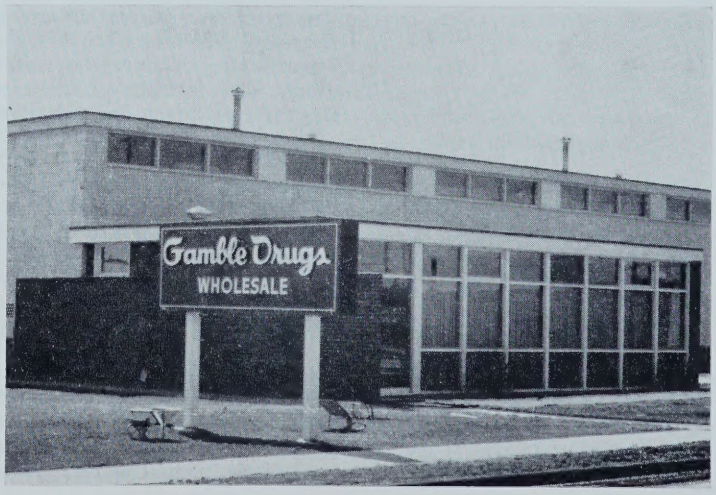


CLARK'S-GAMBLE OF CANADA LIMITED

Customer support continued strong at the company's four stores during the past year. Sales increased 40% and were 126% over the first full year of operations in 1963. After tax profit increased 95% over 1964. Assisting in this continued growth were the new fabrics department and the revolving credit and customer convenience centre programs introduced in the last quarter of the year. "One-stop shopping" is becoming a major customer demand at suburban centres and these programs are designed as traffic builders to offer additional merchandise selection and services that customers desire.

GAMBLE DRUGS LIMITED

The charter for this company was issued in February, 1965 and marked the entry of your company into the specialty field of drugs and drug sundries. Mr. W. R. Koltek, B.Sc., M.B.A. was appointed general manager. The company is selling to retail pharmacies, hospitals, clinics and institutions. Over five thousand items are already being marketed including pharmaceuticals, surgical accessories, patent medicines and toiletries. A franchise drug store program is being developed to assist retail pharmacists. The "Super Thrifty" franchise plan will provide a complete merchandising program, giving the druggist the opportunity of gaining the advantages of large scale operations while remaining independent.



MACLEODS

Division of

MACLEOD STEDMAN Limited

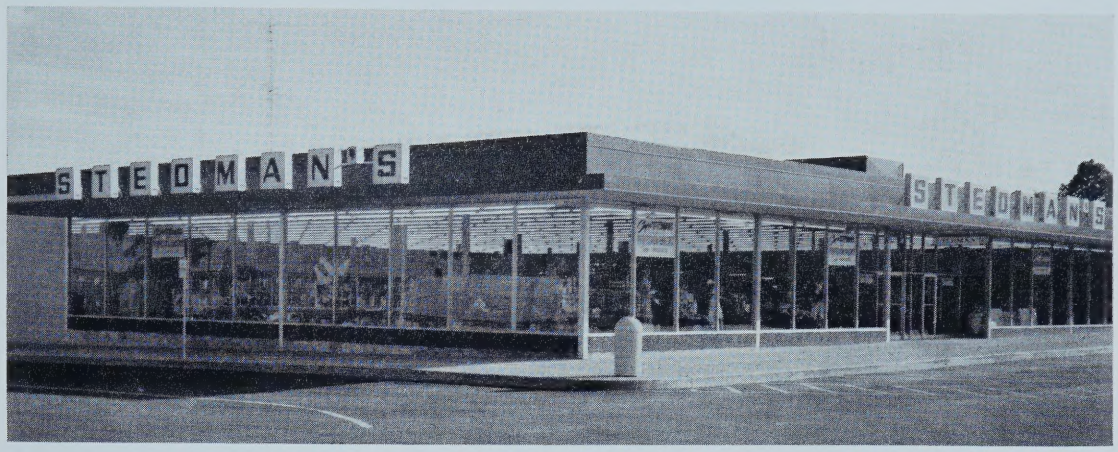
Growth continued in this division during 1965 through expansion and aggressive merchandising development. President B. F. Rutherford reported that six new stores were opened and six existing stores were enlarged or relocated to create complete department stores. Total sales floor area increased 15% during the year and a similar pattern is planned for 1966.

Typical of this growth is the 40,000 square foot store opened in Regina's Avon Plaza. As well as carrying increased lines and varieties of merchandise in established departments, new departments handling health and beauty aids, pet supplies and photography supplies were added. A complete four bay auto centre supplies gasoline, oil and complete automotive service. A similar operation will be launched in a 44,000 square foot development in Saskatoon this year.

The opening of Macleods new home office and warehouse in the spring of 1966 is another milestone in the growth of this division. Covering 288,000 square feet, the warehouse provides many advanced features of operations that will increase efficiency in warehouse handling. The two-storey office structure will provide increased facilities for corporate administration.

Diversification of merchandise lines continued this past year. Soft lines and variety goods accounted for 23% of total sales volume. Furniture and appliance lines maintained steady growth totalling 22.5% of sales volume. Introduction of new departments, such as fabrics, together with growth of well established lines such as automotive, will enable Macleods to meet the needs of urban markets as well as rural, developing family shopping centres which are a major program in the long-range plan for growth and development.

A vigorous merchandising and sales promotion policy through circulars and catalogues supplemented by newspaper, radio and television advertising is designed to help build this new image. The program helped increase sales by 11.4% last year with income from operations increasing 18.5% over the previous period.



STEDMANS

Division of

MACLEOD STEDMAN Limited

Diversification of merchandise lines and increasing customer services continued to be the theme of this division of the company in 1965. Emphasis is being placed on the trend from a variety store operation to one of a variety department store.

During the past two years a much broader assortment of merchandise lines and customer services have been added which has given the company the scope required to increase the size of retail units and enter the growing market of the suburban shopping centre. In this time 14 of the company's 146 stores have been enlarged and 4 of the last 5 new stores opened, provide premises of 18,000 to 40,000 square feet of brightly lighted, well-stocked, and displayed shopping areas. The company's 200 franchise dealers are also broadening their lines of merchandise, and many are remodelling or enlarging to take advantage of the favourable retailing conditions.

In smaller towns and cities a plan is being developed to open new units in close proximity to Macleod stores. Merchandise lines in the two divisions complement each other and thus provide customers with broader selections. In Melville, Saskatchewan, both units are located together in a building owned by Macleod's Store Properties Limited. Similar plans are under way for the town of Drumheller, Alberta, and in a shopping centre in Saskatoon.

Stedman's credit program was developed further. Time payment sales increased 55% in the past year, and a revolving credit plan was installed at 4 stores during the last quarter of this year. Response from customers indicates that this new merchandising sales program will be actively promoted during the coming year. New programs such as these assisted the company in increasing its retail business by 19% over the previous year.

President S. P. Woolever and his eight-man management board is convinced that by advertising and promoting development towards the variety department store operation, they will accelerate the growth rate that has been steadily increasing over 53 years of profitable operations.

MARSHALL WELLS LIMITED

This company joined the Gamble Macleod group in November, 1965 as a wholly-owned subsidiary. P. C. Fikkan continues as President, assisted by a nine-man board of management.

Conducting a retail-wholesale hardlines distribution business, this division serves the industrial and retail needs of western Canadians through a network of 13 warehouses, 34 company-owned and 286 franchise stores.

Within the corporation are two wholly-owned subsidiaries, Marshall Wells Realty Limited, in which all real estate properties of the company are held, and International Laboratories (1957) Limited, a paint manufacturing plant built by the company in 1920. The company also owns a 49% interest in Wood Alexander Limited of Hamilton, Ontario which distributes hardlines merchandise through 95 "Crest" franchise dealer stores as well as serving industrial customers.

During the year Marshall Wells franchised 18 additional dealer stores and three new company-owned stores were opened. These new stores, like the others in the company, operate with an inventory of basic fast-moving lines. A mail order program was introduced to assist in increasing sales of these lines. A general catalogue, available through each distributing warehouse, has exposed to customers thousands of additional items.

The industrial growth of Canada provides great opportunity for development of Marshall Wells Industrial Division. In 1965, efforts were concentrated on specializing in those segments of the industry the company was best suited to serve. Inventories of proper breadth and depth were established in lines of industrial tools, heavy wire products and fasteners, steel, electrical wiring supplies, building supplies, plumbing and heating, contractors hardware and appliances for high rise construction.

These changes and improvements, along with others, enabled the company to achieve a sales increase of 6.5% over the previous year. Continued growth and improvement is anticipated during the coming year.

Macleod's Store Properties ultra modern building in Melville, Saskatchewan, houses both Macleods Family Shopping Centre and Stedmans.

SERVICE SUBSIDIARIES

Growth Acceptance Corporation Limited, the company's finance subsidiary, and Macleod's Store Properties Limited, the real estate subsidiary, continued to grow as a result of the growth in the operating divisions.

Installment contracts owned by Growth Acceptance at January 31, 1966 amounted to $15,123,890, an increase of $4,543,076 or 42.9% from the previous year. A substantial part of this increase came through an extension of financing services to Marshall Wells Limited.

Macleod's Store Properties ended its sixth year of operations with total assets of $7,557,740. This was an increase of $2,032,000 over last year. These assets represent the book value of 38 retail stores, 2 warehouses and Macleods new home office building. Long-term financing of $3,405,000 supplied 45% of capital requirements. The balance has been provided by short-term financing and equity.

DIRECTORS, OFFICERS AND MANAGEMENT

The year was marked by the retirement from fully active duty of Mr. J. W. Tackaberry, Vice-President for Finance and Control of Gamble Macleod Limited and Macleod Stedman Limited. Mr. Tackaberry has been active in the affairs of your company since 1945 and his energetic contributions to its success are greatly admired and appreciated. Mr. Tackaberry continues as a Vice-President of Gamble Macleod Limited and retains his directorship on all corporate boards.

Elections and appointments were made at a directors' meeting held in November. The number of directors was increased from nine to ten and Honorable G. S. Thorvaldson, Q.C. was elected to the Board. Mr. J. L. MacDonald, C.A., was appointed Vice-President and Treasurer of the company, and Mr. W. R. Templin, B.Comm. was appointed Vice-President and Secretary.

To strengthen the long-range plans of your company a management board has been formed of Divisional Presidents and Gamble Macleod executives. This board will insure the implementation of the company's plan to maximize income and minimize expense in all divisions with as much speed and facility as is demanded by the individual programs under way.

Your Board of Directors extends its thanks and appreciation to our valued suppliers, our hundreds of franchised dealers and to the officers and employees of all departments, divisions and companies for the work and co-operation which has resulted in our success during the year.

We appreciate and welcome our customers' continued confidence and support of merchandising divisions.

By Order of the Board,

A. G. Kirkness

President

Consolidated Balance Sheet

January 31, 1966

ASSETS

CURRENT ASSETS:		
Cash on hand and in bank		$ 618,739
Customers' charge and installment accounts (less allowance for doubtful accounts and unearned interest $1,502,184)		6,202,919
Inventories valued at the lower of cost or market		39,783,406
Prepaid expenses		242,927
Total current assets		46,847,991
NOTE RECEIVABLE—3%, payable $50,000 per annum 1967 to 1973 and balance in 1974 (secured by shares having an estimated value in excess of the amount of the note)		1,045,250
INVESTMENTS:		
Wholly-owned subsidiaries at cost plus undistributed earnings:		
Macleod's Store Properties Limited	$ 871,592	
Growth Acceptance Corporation Limited	606,067	
	1,477,659	
Other at cost	864,994	2,342,653
LAND, BUILDINGS, EQUIPMENT AND LEASEHOLD IMPROVEMENTS:		
Buildings and equipment at cost less accumulated depreciation $8,308,527	9,907,360	
Leasehold improvements at cost less amounts amortized	632,019	
Land at cost	1,495,821	12,035,200
DEFERRED CHARGE—unamortized discount on debentures		805,813
EXCESS OF COST OF SUBSIDIARIES OVER EQUITY ON DATE OF ACQUISITION		8,814,630
		$71,891,537

LIABILITIES

CURRENT LIABILITIES:		
Bank loan $2,700,000 (secured) and bank overdraft $1,767,531		$ 4,467,531
Accounts payable and accrued liabilities		8,610,952
Provision for contributions to retirement security plan		933,115
Gamble-Skogmo Inc.—parent company		13,620
Provision for income taxes		2,860,758
Portion of long-term debt due within one year		15,201
Total current liabilities		16,901,177
LONG-TERM DEBT:		
5½% promissory note (secured)—Canadian equivalent of U.S. $8,200,000 (Note 1)	$ 8,866,250	
6% sinking fund debentures (Note 4)	5,200,000	
6% sinking fund debentures (Note 3)	15,000,000	
Mortgages	40,621	
	29,106,871	
Less payments due within one year	15,201	29,091,670
MINORITY INTEREST IN CAPITAL AND SURPLUS OF SUBSIDIARIES (Note 5)		412,164
SHAREHOLDERS' EQUITY:		
Capital stock:		
Cumulative redeemable participating first preference shares of a par value of $20 each. Authorized 140,000 shares; none issued.		
Class "A" non-voting shares without nominal or par value. Authorized 740,000 shares; issued 290,000 shares	72,500	
Class "B" shares without nominal or par value. Authorized 10,000 shares; issued 10,000 shares	2,500	
Consolidated earned surplus	25,411,526	25,486,526
		$71,891,537

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

C. C. RAUGUST, *Director*

A. G. KIRKNESS, *Director*

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Gamble Macleod Limited and Subsidiaries as of January 31, 1966 and the statements of consolidated income and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and statements of consolidated income and earned surplus present fairly on a consolidated basis the financial position of the companies at January 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Winnipeg, Manitoba
March 9, 1966

Notes to Consolidated Financial Statements

1. The promissory note is payable as follows:

July 15, 1967 — U.S.	$ 200,000
July 15, 1968 — U.S.	2,000,000
July 15, 1969 — U.S.	6,000,000

2. These financial statements represent a consolidation of the accounts of the parent company, Gamble Macleod Limited, and those of all subsidiary companies except Growth Acceptance Corporation Limited, a wholly-owned finance company, and Macleod's Store Properties Limited, a wholly-owned property company, which are excluded because their operations are not in the merchandising field. The net earnings of Growth Acceptance Corporation Limited from the date of acquisition to January 31, 1966 of $68,749 less the dividends paid of $41,699, have been added to the carrying value of the investment in the consolidated accounts. The net earnings of Macleod's Store Properties Limited from the date of inception to January 31, 1966 of $167,044 less the dividends paid of $45,453 have been added to the carrying value of the investment in the consolidated accounts.

3. The sinking fund debentures are redeemable at the option of the company at percentages ranging from 105.70% in 1966 to 100.30% in 1984 and are redeemable for mandatory sinking fund requirements at the principal amount plus accrued interest. The company has undertaken to establish a sinking fund for the debentures by paying to the trustee a sum sufficient to retire $1,000,000 principal amount of debentures each year from July 15, 1970 to July 15, 1983 inclusive. The conditions attaching to the 6% sinking fund debentures impose certain restrictions on the bulk sale of the business, the incurring of rental obligations, the pledging of fixed assets, the creating of additional funded obligations, and the payment of dividends.

4. The terms of the debentures require the company to redeem debentures of a principal amount of $300,000 each year up to and including 1981 and to redeem the balance in 1982.

The balance outstanding at January 31, 1966 is	$5,600,000
Debentures purchased for redemption during the year and lodged with the trustee on account of sinking fund contributions	400,000
	$5,200,000

5. There are outstanding share purchase warrants of Marshall Wells Limited, a subsidiary company, entitling the minority shareholders, on or before May 15, 1967, to purchase 154,295 preferred shares of that company at $7 per share.

GAMBLE MACLEOD LIMITED AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Income

	Year Ended January 31, 1966	13 Months Ended January 31, 1965
OPERATING INCOME BEFORE THE UNDERNOTED EXPENSES	$14,730,864	$13,950,915
DEDUCT:		
Directors' remuneration	194,281	197,554
Legal Expenses	56,262	31,867
Depreciation	1,199,700	959,825
Amortization of leasehold improvements	69,143	68,135
	1,519,386	1,257,381
OPERATING INCOME	13,211,478	12,693,534
OTHER INCOME:		
Dividends	2,124,911	171,375
Interest earned	154,437	313,268
Net income of wholly-owned subsidiaries:		
Growth Acceptance Corporation Limited	45,948	2,801
Macleod's Store Properties Limited	167,044	——
Profit on sale of fixed assets	——	375,967
	2,492,340	863,411
	15,703,818	13,556,945
OTHER CHARGES:		
Provision for bonuses	979,273	944,424
Provision for contributions to retirement security plan	842,234	546,056
Interest—long-term debt	1,564,017	1,033,436
Interest—other	242,398	71,121
Sundry non-operating expenses	162,360	218,228
	3,790,282	2,813,265
INCOME BEFORE INCOME TAXES	11,913,536	10,743,680
Income taxes	5,023,187	5,521,246
	6,890,349	5,222,434
DEDUCT:		
Portion of earnings of subsidiary applicable to period prior to acquisition	——	562,694
Minority interest in net earnings of subsidiaries	118,831	170,147
	118,831	732,841
NET INCOME	6,771,518	4,489,593

See Accompanying Notes to Consolidated Financial Statements.

Statement of Consolidated Earned Surplus

For the year ended January 31, 1966

AMOUNT AT JANUARY 31, 1965	$20,140,008
NET INCOME	6,771,518
	26,911,526
DIVIDENDS PAID	1,500,000
AMOUNT AT JANUARY 31, 1966	$25,411,526

See Accompanying Notes to Consolidated Financial Statements.

GAMBLE MACLEOD LIMITED AND CONSOLIDATED SUBSIDIARIES

10 Year Comparison

	1966(1)	1965(2)	1963
Sales	$157,779,780	$149,495,772	$127,387,540
Income from Operations	10,453,005	11,058,506	9,570,930
Income from Investments	2,124,911	216,176	1,525,325
Capital Gains	17,817	549,179	——
Income Before Income Taxes	12,595,733	11,823,861	11,096,255
Income Taxes	5,434,187	6,072,246	4,954,434
Net Income	7,161,546	5,751,615	6,141,821
Working Capital	31,005,684	35,114,620	35,694,761
Funded Debt	29,066,250	35,801,875	8,718,500
Shareholders Equity	25,486,526(3)	29,103,046(3)	44,977,479
Dividends Paid			
To Preferred Shareholders	——	356,775	371,175
To Common Shareholders	1,500,000	973,257	681,321
Funds Retained in the Business			
Income Retained	5,661,546	4,421,583	5,089,325
Depreciation	1,427,995	1,272,254	1,125,787
	7,089,541	5,693,837	6,215,112
Value of Employees Retirement Security Plan Trust Fund	10,071,108	8,967,836	7,530,865
Number of Employees	4,416	4,043	3,958
Number of Stores			
Company Owned	262	257	247
Dealer Owned	622	603	605
	884	860	852

Note 1—The year 1966 reflects the results for the full year of all consolidated subsidiaries, and includes an amount of $390,028 pre-acquisition earnings of a subsidiary acquired during the year.

Note 2—The year 1965 reflects the change in accounting period for Gamble Macleod Limited from a calendar year to a fiscal year ending January 31, and indicates the financial results of the company and its consolidated subsidiaries for the thirteen months ended January 31, 1965.

The consolidated net income has been restated from that previously reported to include for comparison the total income for the year of the consolidated subsidiaries but after deducting minority interests in profits of the

1962	1961	1960	1959	1958	1957	1956
$116,761,004	$106,907,914	$106,802,165	$112,213,019	$104,980,270	$96,062,541	$90,712,226
8,868,225	7,278,470	7,425,628	8,489,044	8,315,233	7,696,269	7,138,641
59,775	264,575	367,275	444,887	219,453	54,660	22,500
——	(2,000)	3,063	393,744	8,032	103,613	11,398
8,928,000	7,541,045	7,795,966	9,327,675	8,542,718	7,854,542	7,172,539
4,605,661	3,701,804	3,804,614	4,299,513	3,938,106	3,667,936	3,257,658
4,322,339	3,839,241	3,991,352	5,028,162	4,604,612	4,186,606	3,914,881
32,889,715	30,535,508	28,144,416	27,011,981	24,249,431	28,475,030	25,853,467
9,064,500	9,471,500	10,019,000	10,225,000	10,540,000	7,375,000	7,500,000(4)
39,588,154	35,855,199	33,126,029	30,241,424	25,557,844	33,066,603	22,807,117(4)
366,375	367,975	375,975	350,388	343,553	198,286	——
834,009	742,396	823,472	817,894	8,613,195	662,915	407,168
3,121,955	2,728,870	2,791,905	3,859,880	(4,352,136)	3,325,405	3,507,713
973,493	926,726	938,770	793,754	703,965	535,416	484,673
4,095,448	3,655,596	3,730,675	4,653,634	(3,648,171)	3,860,821	3,992,386
6,688,971	6,321,432	5,670,126	5,214,046	4,487,380	3,846,221	3,148,099
3,734	3,414	3,333	3,431	3,359	3,273	3,166
240	224	211	205	192	178	168
575	579	564	535	516	484	463
815	803	775	740	708	662	631

subsidiaries. No provision for minority interests in profits of the subsidiaries has been reflected for the years 1956 to 1963.

NOTE 3—The Shareholders' Equity of $29,103,046 at January 31, 1965 and of $25,486,526 at January 31, 1966 is after eliminating therefrom the equity acquired in consolidated subsidiaries in each year.

NOTE 4—Funded Debt and Shareholders' Equity at December 31, 1956 reflects certain pro forma transactions to give effect to reorganization of a subsidiary as of that date.

Gamble Macleod Limited

This is an artist's conception of the main entrance lobby of the Gamble Macleod Building at 1530 Gamble Place, Fort Garry, Winnipeg. The spacious open court layout of the lobby... with Welsh Quarry Tile floor and two continuous dome skylites . . . . present an intriguing arrangement of modern architecture.